

# WHAT'S NEW FOR 2003

**NOTE: THE FOLLOWING IS A BRIEF DESCRIPTION OF EACH ACT AND IS NOT INTENDED TO REPLACE A CAREFUL READING OF THE ACT IN ITS ENTIRETY.**

## **Return Filing Dates Changed (Act 774 of 2003)**

1. Changes the due dates of state income tax returns to the due date for the corresponding federal income tax return, April 15 for calendar year filers.
2. Changes the dates that interest and penalty on unpaid income tax begins to accrue to the new return due dates.
3. Changes the dates that estimated tax payments are due to the corresponding federal due date for payments of estimated tax.

## **Retirement Contribution Limits Clarified (Act 218 of 2003)**

This act readopts federal law to allow Arkansas taxpayers to take advantage of increased annual contribution limits for IRAs, 401k, 403b, 457 and SIMPLE plans for state income tax purposes. The act also readopts federal law regarding the taxation of educational IRAs (IRAs established to provide funds for post-secondary education). The act will allow Arkansas taxpayers to take advantage of increased annual contribution limits for educational IRAs for state income tax purposes. This act is effective for tax years 2002 and later.

## **Income Tax Surcharge (Act 38 of the First Extraordinary Session of 2003)**

For tax years beginning in 2003, the act imposes a 3% income tax surcharge on all Arkansas taxpayers. The 3% applies to the tax liability computed using existing rates. The surcharge also applies to residents of Texarkana who are otherwise exempt from Arkansas income tax.

## **Working Taxpayer Credit Repealed (Act 1724 of 2003)**

This act repeals the OASDI credit, also known as the Working Taxpayer Credit, for tax years beginning January 1, 2003.

## **Two New Check Offs Added for 2003 (Acts 279 and 1362 of 2003)**

Baby Sharon Act (Act 279) - This act creates the Baby Sharon's Children's Catastrophic Illness Grant Program and Trust Fund. The program will provide funds to assist with the medical expenses incurred by the families of children with catastrophic illnesses or injuries. Taxpayers, both individual and corporate, can designate a portion (or all) of their Arkansas income tax refunds to go to the program's trust fund.

Organ Donor Awareness Education (Act 1362) - This act provides for the creation of the Organ Donor Awareness Education Trust Fund to make grants to the Arkansas Regional Organ Recovery Agency (ARORA) to educate the public about organ donation. The act requires that the Department of Finance and Administration provide an opportunity for income tax filers to have a portion of their refund donated to the Organ Donor Awareness Education Trust Fund.

## **PKU Credit Expanded (Act 1440 of 2003)**

This act extends the PKU credit to cover galactosemia, organic acidemias or any other disorders related to amino acid metabolism. The act also extends health insurance coverage to special food-related products purchased in conjunction with these illnesses.

## **Other State Tax Credit Clarified (Act 662 of 2003)**

This act clarifies that the other state tax credit is available only when Arkansas and another state both seek to tax the same income.

## **Standard Deduction/Itemized Deduction for Married Taxpayers Clarified (Act 997 of 2003)**

This act clarifies that married taxpayers must both elect to use the standard deduction or both spouses must claim itemized deductions even if the spouses file separate returns or separately on the same return.

## **Federal Estate Tax Adoption Clarified (Act 645 of 2003)**

The act clarifies the appropriate date upon which the Arkansas estate tax will be repealed. The Arkansas estate tax will be repealed in conjunction with the repeal of the federal Credit for State Death Taxes on January 1, 2005.

## **Income Tax Technical Corrections Act (Act 663 of 2003)**

This act amends various state income tax provisions to adopt recent changes to the Internal Revenue Code (IRC) and other changes:

1. Clarifies that qualified withdrawals from IRC §529 Plans established in other states are tax exempt. Non qualified withdrawals are subject to Arkansas income tax.
2. Adopts IRC §117 to clarify the taxability of scholarships, fellowships and stipends.
3. Readopts IRC §131 regarding the exclusion from gross income of qualified foster care payments received by a foster home provider.
4. Readopts IRC §132 regarding the exclusion from gross income of certain non-cash fringe benefits.
5. Readopts IRC §127 regarding the exclusion from gross income of education expenses paid by a taxpayer's employer.
6. Adopts IRC §137 to allow a taxpayer to exclude from gross income adoption-related expenses paid or incurred by the taxpayer's employer under the employer's adoption assistance program.
7. Readopts Subchapter S of the Internal Revenue Code.
8. Adopts IRC §1042 regarding the deferral of gain realized on the sale of a corporation's shares of stock to the corporation's employee stock ownership plan (ESOP).
9. Readopts IRC §221 regarding the deduction of interest paid on qualified educational loans.
10. Readopts IRC §220 regarding the deduction of contributions made to a medical savings account (MSA).
11. Readopts IRC §23 regarding the credit allowed for adoption-related fees and expenses.
12. Adopts IRC §151(c)(6) regarding the tax treatment of kidnapped children.
13. Readopts IRC §21 regarding the credit allowed for household and child care services when such services are used for the purpose of holding gainful employment.

## **List of Refund Set Off Entities Expanded (Acts 826, 1023, and 1800 of 2003)**

1. Act 826 of 2003 makes money owed to the Employee Benefit Division of DFA eligible for the state income tax refund setoff program.
2. Act 1023 of 2003 makes money owed to Housing Authorities eligible for the state income tax refund setoff program.
3. Act 1800 of 2003 makes money owed due to any legal proceeding through county, district or city courts eligible for the state income tax refund setoff program. (This includes traffic fines, fines and court costs imposed under the Arkansas Hot Check Law and restitution ordered by a circuit, county, district, or city court.)

## **Partnerships and LLCs File Same as Federal (Act 965 of 2003)**

This act adopts the federal "check the box" regulations and requires partnerships and LLCs to file in the same manner in which the entity files and pays federal income tax.

## **Interest on Arkansas Soil and Water Bonds Tax Exempt (Act 598 of 2003)**

Revenue bonds issued by the Arkansas Soil and Water Commission are exempt from all state, county and municipal taxes, including income, inheritance and property taxes.

## **Certain Venture Capital Investments Exempt from Capital Gain (Act 857 of 2003)**

Provides an income tax exemption for 100% of the net capital gain derived from a venture capital investment made in a qualified technology-based enterprise, a qualified biotechnology-based enterprise, or a qualified technology incubator client.

## **New Biodiesel Incentives (Act 1287 of 2003)**

The act establishes new incentives for biodiesel suppliers and biodiesel producers. The act provides an income tax credit to biofuels suppliers equal to 5% of the costs of facilities and equipment used directly in the wholesale or retail distribution of biodiesel fuels.

# WHAT'S NEW FOR 2003

## (Continued)

### National Guard and Reservists Receive Extensions to File (Act 996 of 2003)

This act requires the Department of Finance and Administration to extend the expiration date of all licenses, permits and registrations of Arkansas residents who serve in Guard or Reserve units and who are stationed outside of Arkansas for a period not less than ninety days and up to one year after the person is released from active duty. The extension also applies to state taxes, fees and assessments, including income tax. The act permits each agency to establish by regulation the amount of time the extension of a license, permit, registration or tax payment may last after the person's active duty ends, provided the extension is at least ninety (90) days and not more than one year.

### Arkansas Capital Development Corporation Act Amended (Act 860 of 2003)

This act amends current law to broaden the types of business entities that may be formed and reinstates tax credits for investors that purchase equity interests in a capital development company ("CDC"). The act authorizes the formation of state-wide venture capital companies with access to state income tax credits as an incentive for investors. The act allows a CDC to be formed as a Limited Liability Company or Partnership in addition to a Corporation. The act also strengthens the regulatory authority of the State Bank Department and requires CDCs to comply with Arkansas securities laws.

### New Coal Incentives (Act 993 of 2003)

This act provides an income or insurance premium tax credit of \$2.00 per ton of coal mined, produced or extracted on each ton of coal mined in Arkansas by a coal mining enterprise in a tax year. An additional credit of \$3.00 per ton will be allowed for each ton of coal mined in Arkansas in excess of 50,000 tons by a coal mining enterprise in a tax year.

### Arkansas Existing Workforce Training Act of 1995 Amended (Act 609 of 2003)

This act:

1. Replaces SIC code classifications for manufacturers and firms primarily engaged in commercial physical and biological research with North American Industry Classification System Codes as in effect on January 1, 2003.
2. Increases the out-of-state sales requirement for computer firms;
3. Imposes a completion requirement relating to a consortium;
4. Increases the maximum instructional hourly rate;
5. Added maximum instructional hourly rates for hours delivered by adjunct or part time instructors, safety related training, and for courses with less than 50% eligible participants completing the course.

### Consolidated Incentive Act of 2003 (Act 182 of 2003)

This act replaces a number of existing incentive programs including:

1. Advantage Arkansas/Enterprise Zone job creation tax credits;
2. Arkansas Economic Development Act;
3. Sales and use tax incentive credit;

The act creates new incentive as follows:

1. Provides a sales and use tax refund to new and expanding businesses similar to the existing Advantage Arkansas/Enterprise Zone incentive;
2. Establishes a new incentive aimed at businesses that fall into one or more of six categories called "targeted businesses";
3. Act provides a payroll rebate that is substantially similar to the old payroll rebate program, Create Rebate;
4. Provides income tax credits for research and development expenditures;
5. Provides transferable income tax credits for new targeted businesses.

## SPECIAL INFORMATION FOR 2003

### NEW COLORED MAILING LABEL IN MIDDLE OF BOOKLET

**As a security measure, the colored mailing label in the middle of this booklet no longer includes your Social Security Number(s). You MUST enter your Social Security Number(s) on your return in the space provided or your return cannot be processed and will be returned to you.**

### FEDERAL RETURN MUST BE ATTACHED TO AR1000NR

NONRESIDENTS AND PART-YEAR RESIDENTS FILING ON FORM AR1000NR **MUST** ATTACH A COPY OF THEIR COMPLETE FEDERAL RETURN OR YOUR ARKANSAS RETURN CANNOT BE PROCESSED AND WILL BE RETURNED TO YOU.

### EXTENSION TO FILE

An automatic extension of time for filing your Federal Income Tax Return may be used when you file your Arkansas Return. If you have filed Federal Form 4868, it is no longer necessary to attach that form to the return. When the return is complete and ready to file, simply check the box on the face of the Arkansas Return and mail the return prior to the final date stated on the Federal Extension. **Do not mail in an incomplete AR1000 to claim the extension to file.** For additional extensions of time, you must still attach an approved copy of the additional Federal Extension Form 2688.

### WITHHOLDING INCOME TAX OFFICES HAVE MOVED

The Withholding Branch has moved to its permanent location on the first floor of the renovated north end of the Joel Y. Ledbetter Building. The new room number for the Withholding Section is 1380. The mailing addresses and telephone numbers have not changed.

### SET OFF REFUNDS

If you owe a debt to one of the agencies listed below or if you have filed jointly with a spouse or former spouse who owes, all or part of your refund may be withheld to satisfy the debt. Agencies and other entities that may claim your refund are:

Dept. of Finance & Administration	Dept. of Human Services
State of Arkansas Supported Colleges	Dept. of Higher Education
Universities, & Technical Institutes	UAMS and Affiliated Clinics
Internal Revenue Service	Child Support
Employment Security Dept.	Employee Benefits Division
Arkansas Circuit, County, District and City Courts	Housing Authorities

If your refund is withheld, you will receive a letter stating which agency claimed your refund and the appropriate telephone number. You must contact the agency claiming the refund to resolve any questions or differences. Income Tax personnel will be unable to assist you regarding these matters.

**If you owe a debt for Arkansas income tax, your federal refund may be captured to satisfy this state debt.**

### NOTICE TO MARRIED TAXPAYERS

If only one of the married taxpayers owes the debt, the taxpayer who is not liable can avoid having his/her refund applied to the debt if both taxpayers file status 5, married filing separately on different returns. (See Instructions for filing Status 5).